

PART I
FRAMEWORK

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1. INTRODUCTION

This Handbook provides the framework and guidelines for evaluating, on a case-by-case basis, the need for Government action to preserve industrial capabilities vital to national security. A defense industrial capability is a skill, facility, process, or technology needed to design, develop, produce, repair, or maintain products used by the Department of Defense. You should use this Handbook when there is an indication that an important and unique industrial capability could be lost.

Purpose

This Handbook is not intended to replace normal vendor management procedures and authorities. There are many routine vendor problems that arise in program and item management: components become obsolete when manufacturers change models, companies stop making certain products, and other sources for the products must be qualified. Those problems currently handled through routine vendor management authorities are not candidates for this process.

What is the purpose of this Handbook?

The Department of Defense buys products and services—not capabilities—but every product or service represents a set of industrial capabilities. This handbook outlines the Department's analysis process to answer:

- ⇒ What industrial capabilities are essential to making the products and services the Department's needs?
- ⇒ Are these capabilities truly unique? Truly endangered?
- ⇒ What is the best course of action for the Department of Defense?

The Department of Defense relies on market forces to the maximum extent possible to guide the development and sustainment of industrial capabilities. We will only consider taking action in those exceptional cases where an industrial capability, necessary to meeting defense requirements, is genuinely at risk of being lost. Any recommendation for special action must be based on a thorough analysis, using the guidance provided in this Handbook.

Philosophy

Responsibilities

Who should use this Handbook? When?

- ⇒ DoD managers or teams formed within and across the DoD Components
- ⇒ When there is an indication that a needed defense product or service could be lost due to loss of industrial capability

Analysis

Any DoD manager may initiate a Defense Industrial Capabilities Analysis (see Part II) when there is an indication that a needed industrial capability could be lost. Ultimately, the DoD Components are responsible for analyzing industrial capabilities that may be at risk. When industrial capabilities affect more than one defense program or user, the DoD Components should coordinate their analyses and subsequent decisions within and across the Components.

Decision authorities

- . For all Acquisition Category (ACAT) programs, all actions or investments of less *than \$10 million* annually to preserve a capability are approved by the Component Acquisition Executive (CAE) or Defense Acquisition Executive (DAE), as defined in DoD 5000.2-R, “Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MATS) Acquisition Programs,” March 15, 1996, authorized by DoD Directive 5000.1, March 15, 1996.
- . For all other products or programs, all actions or investments of less *than \$10 million* annually to preserve a capability are approved by the Head of the Contracting Activity (HCA).
- . For all programs or products—ACAT and non-ACAT—any proposed action or investment to preserve a capability with an anticipated cost of *\$10 million or more annually* requires the approval of the Under Secretary of Defense for Acquisition and Technology (USD (A&T)) and coordination with the Deputy Under Secretary of Defense for Industrial Affairs and Installations (DUSD (IA&I)).

Policies and procedures

DUSD (IA&I) is responsible for the policies and analysis procedures that govern the Department of Defense’s role in maintaining industrial capabilities required to carry out the defense mission.

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NEED HELP? If you need help in applying the procedures described in this handbook, please contact the DUSD (IA&I) Director, Industrial Capabilities and Assessments, the Pentagon, Room 2B322, (703) 697-1366 or 697-6833; DSN 227-1366 or 227-6833; e-mail ICA@acq.osd.mil.

2. THE PLANNING FRAMEWORK

We are operating in a defense environment that is very different from that of the past, and defense policy has changed accordingly. The following is the framework in which decisions on the preservation of defense industrial capabilities are made.

Sharp reductions in the defense budget, particularly in the procurement account, reflect our new security environment. Between 1985 and 1995, the Department's budget dropped in real terms by 35% overall and by 67% in procurement. The largest part of these cuts is being achieved by reducing the procurement of new weapon systems. We are buying and developing fewer types of military systems and purchasing smaller quantities of the systems we do buy. This has a direct effect on industry.

DoD is a smaller customer with changing needs

Consolidation and restructuring are the defense industry's inevitable and natural responses to lower revenues. This consolidation is essential to reducing the industrial capacity that exists in excess of defense needs, and to lowering the overhead costs of the products we do buy. Such consolidation needs to proceed primarily without Government intervention.

Industry is downsizing

Our challenge is to maintain superior technology and industrial capabilities at an affordable price. To meet this challenge, we are pursuing two strategies.

DoD is adopting new strategies

The first strategy is to rely on a technology and an industrial base sustained by commercial demand, but capable of meeting defense needs. By using commercial products and services, we benefit from the cost efficiencies and technological innovations available from a much larger commercial market. We also capitalize on industry's investments in research and development and more rapid pace of product improvements.

Rely on commercial suppliers

The second strategy is for the Department to take advantage of the cost and technology benefits offered by access to the best global suppliers. We are pursuing cooperative international development and production programs because they offer cost sharing of defense development projects, access to new technologies, and access to an international industrial base. With the proper selection of suppliers, we can gain from a significantly expanded use of foreign sources without becoming vulnerable to those same sources.

Buy from the global marketplace

Reduce defense-unique industrial capabilities

While we are seeking to eliminate business practices that drive unnecessary defense-unique industrial capabilities, capabilities that are needed solely, or predominately, for defense products will remain. These capabilities may have no commercial counterpart. For example, the Department of Defense will need capabilities to produce defense products that can meet extraordinary performance demands or operate in extreme environments. We must distinguish capabilities that are truly defense unique from those which only appear unique because of past DoD acquisition practices.

DoD will fund actions to preserve capabilities only when necessary

In this period of downsizing and consolidation, our objective is to ensure that industrial capabilities needed to meet national security requirements will remain available. While an industrial capability resides in a company, it is *not* a company, per se.

Analysis

We do not need, nor can we afford, to invest to preserve every industrial capability or a capacity level greater than that needed to meet defense needs. The Department of Defense will not take actions based solely on the assumption that existing capabilities must be preserved. The Department of Defense will base its decisions on a case-by-case analysis considering defense needs and all possible alternatives.

Funding trade-offs

When the Department of Defense decides to take a special action to preserve an industrial capability, we must include the costs in our budgets, acquisition plans, and resource allocations. DoD dollars spent to preserve capabilities leave fewer dollars available for other resource priorities, such as readiness, modernization, and soldier quality of life.